

Message Text

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ACTION SS-30

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R 270810Z MAY 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 7254

AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MOWCOW

USMISSION OECD PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

S E C R E T JIDDA 2924

EXDIS

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJECT: OPEC AND OIL PRICES - SAUDI VIEWS AND TACTICS

REF: A) VIENNA 3738; B) JIDDA 2427; C) STATE 109908 (NOTAL)

SUMMARY: THE SAUDI MINISTER OF PETROLEUM TOLD THE AMBASSADOR MAY 26 THAT THERE WOULD BE TWO MAIN TOPICS ON THE AGENDA OF THE NEXT OPEC MEETING (QUITO, ECUADOR, JUNE 15-17): RAISING POSTED PRICES FOR OIL AND IMPOSING EXCESS PROFITS TAXES ON THE OIL COMPANIES. HE THOUGHT SAUDI ARABIA COULD KEEP THE POSTINGS CONSTANT, AT LEAST FOR THE TIME BEING, AND THOUGHT IT COULD PRE-

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VENT THE IMPOSITION OF EXCESS PROFITS TAXES PROVIDED

THE CONSUMER GOVERNMENTS DO NOT IMPOSE SIMILAR TAXES THEMSELVES. END SUMMARY.

1. AHMAD ZAKI YAMANI, SAUDI MINISTER OF PETROLEUM TOLD THE AMBASSADOR YESTERDAY (MAY 26) THAT IRAN, KUWAIT AND ALGERIA WILL AGAIN PUSH HARD AT THE QUITO OPEC MEETING FOR INCREASED POSTINGS FOR OIL (I.E. INCREASED GOVERNMENT TAXES) AND THAT ALL OTHER MEMBERS OF OPEC WILL SUPPORT THE TRIO EXCEPT SAUDI ARABIA. THEIR ARGUMENT, WHICH IS BECOMING INCREASINGLY DIFFICULT TO ANSWER, IS THAT WORLD INFLATION IS RUNNING AT MORE THAN 10 PERCENT (COST OF STEEL PIPE, A CRITICAL ITEM, FOR EXAMPLE, HAS RISEN 65 PERCENT IN THE LAST YEAR) AND OIL PRICES, CONSTANT IN TERMS OF DOLLARS, MEANS EFFECTIVELY DECREASING OPEC OIL INCOME. NONETHELESS, HE SAID, SAUDI ARABIA UNDERSTANDS THE CURRENT DANGERS TO THE WORLD ECONOMY OF THE HIGH OIL PRICES AND IT WILL HOLD THE LINE. IF THE OTHERS ALL RAISE THEIR PRICES, SAUDI ARABIA WILL WITHDRAW FROM ACTIVE PARTICIPATION IN OPEC, WILL REDUCE ITS POSTINGS AND INCREASE PRODUCTION. HE SAID THIS PROSPECT SO FRIGHTENS THE OTHER OPEC MEMBERS THAT THEY WILL AGREE TO KEEP POSTINGS CONSTANT.

2. YAMANI SAID OPEC, LED BY THE IRANIANS, IS ALSO DETERMINED TO IMPOSE A SURPLUS PROFITS TAX ON THE MAJOR COMPANIES. THEIR EXCESSIVE PROFITS, HE SAID, COME EXCLUSIVELY FROM THE DIFFERENCE BETWEEN THE PRICE THEY PAY FOR THEIR EQUITY OIL AND THE GOING WORLD PRICE FOR OIL. HE SAID THIS DIFFERENCE WILL HAVE TO BE REDUCED (SEE FOLLOWING TELEGRAM) OR THE SMALLER OIL COMPANIES WILL BE WIPED OUT. BUT HE SAID THIS SHOULD NOT BE DONE BY IMPOSITION OF ADDITIONAL TAXES ON THE COMPANIES, WHICH WOULD IN NO WAY HELP THE CONSUMERS.

3. YAMANI THOUGHT HE WOULD BE ABLE TO PREVENT THIS ACTION BEING TAKEN BY OPEC BUT WAS LESS THAN CATEGORIC IN HIS PREDICTION OF SUCCESS. HE SAID IF CONSUMER
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GOVERNMENTS WERE TO IMPOSE EXCESS PROFITS TAXES THEMSELVES (AS THEY NOW SEEM TO BE CONTEMPLATING), HIS POSITION WOULD BE DESTROYED AND EVERY COUNTRY IN OPEC, INCLUDING SAUDI ARABIA, WOULD IMMEDIATELY IMPOSE NEW TAXES ON PRODUCTION (THERE IS NO OTHER SOURCE OF EXCESS PROFITS), REDUCING THE COMPANY PROFITS TO SOMETHING ACCEPTABLE TO THE CONSUMER GOVERNMENTS. HE ASKED SPECIFICALLY THAT HIS VIEW

ON THE MATTER BE BROUGHT TO THE ATTENTION OF WILLIAM SIMON, SECRETARY OF THE TREASURY.

4. COMMENT: YAMANI IS STILL RIDING HIGH. KING FAISAL UNDERSTANDS THE DANGERS TO THE WORLD ECONOMY OF HIGH OIL PRICES (HE HAS ACCEPTED THE REASONING THAT HIGH OIL PRICES COULD CAUSE THE COLLAPSE OF ECONOMIES IN ASIA AND AFRICA, COULD SERIOUSLY WEAKEN THE INDUSTRIALIZED POWERS OF THE WEST AND STRENGTHEN COMMUNISM EVERYWHERE), AND HE IS BAKING YAMANI'S EFFORTS COMPLETELY. PRINCE FAHD, THE POWERFUL MINISTER OF THE INTERIOR, ALSO SUPPORTS YAMANI.

5. THIS IS POWERFUL SUPPORT BUT IT IS ERODING. SOME SAUDIS (E.G. HISHAM NAZER, THE MINISTER OF PLANNING) WANTS SAUDI OIL PRODUCTION TO BE CUT; THIS WOULD ONLY SERVE TO INCREASE WORLD OIL PRICES. OTHERS (E.G. MUHAMMAD ABA AL-KHAYL, MINISTER OF STATE FOR FINANCE) ARGUE THAT IT IS UNFAIR TO ASK SAUDI ARABIA ALONE TO PUT THE LID ON WORLD INFLATION. THEY ACCEPT THE IRANIAN VIEW THAT OIL PRICES SHOULD BE KEPT DOWN ONLY IF THE REST OF THE WORLD TAKES EFFECTIVE MEASURES TO CONTROL THE PRICES OF STEEL, WHEAT AND MANUFACTURED GOODS.

6. THE KING'S AND FAHD'S SUPPORT OF YAMANI PROBABLY DEPEND MORE ON POLITICS THAN ECONOMICS, HOWEVER. AND IF THE PEACE EFFORTS IN THE MIDDLE EAST CONTINUE, SAUDI ARABIA IS NOT LIKELY FOR A WHILE TO JOIN THE OPEC DEMAND FOR HIGHER GOVERNMENT INCOME PER BARREL OF OIL PRODUCED. BUT IN FACT OF WORLD INFLATION WE DOUBT THAT SAUDI ARABIA WILL BE ABLE TO MAINTAIN THIS POSITION INDEFINITELY. EVENTUALLY, THE OTHER OPEC

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COUNTRIES WILL RAISE THEIR PRICES WITHOUT SAUDI CONCURRENCE AND YAMANI'S BLUFF WILL BE CALLED. WE DOUBT VERY MUCH THAT YAMANI COULD THEN CARRY OUT HIS THREAT TO REDUCE PRICES AND RAISE PRODUCTION UNILATERALLY. THE CONSERVATIONISTS IN THE KINGDOM WOULD TAKE THE MATTER TO THE KING AND THEY PROBABLY WOULD WIN. HOWEVER, FOR AS LONG AS THE REST OF OPEC BELIEVES SAUDI UNILATERAL ACTION IS A SERIOUS THREAT, THE CONSUMERS SHOULD CERTAINLY DO NOTHING RPT NOTHING TO DISABUSE THEM.

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